Exhibit I

DRAFT
Commodities Brief

P&L Loss

The commodities business will recognize a probable loss this quarter of between $250 to $350 million. Worst case loss of $550 million is possible but unlikely.

The loss emanates from three areas:
Trading performance – approximately $100 mm as at April 18, 2007. (This figure may change depending on market conditions and position changes over the remainder of the month.)
Valuation adjustments (estimates based on March positions and prices)

Independent price verification	$130 to $230 mm
Close out costs	$ 20 to $ 30 mm

Each is discussed later.

How did this Happen?

- The loss is a result of breakdowns in three areas: strategy, management judgment and risk (including valuation) measurement.

Strategy

- The business strategy was limited to two commodities – natural gas and crude – and the book was dominated by natural gas. This lack of diversification makes the business very dependent on one market. The addition of base and precious metals to the products traded would have improved the diversification of the portfolio. According to outside consultants, many competitors also balance their financial commodities trading with cash market activity providing further diversification.

Management Judgment

- The primary business strategy was to support customer activity. During the first half of fiscal 2006, producers and other customers were active in the market, seeking to hedge their exposures due to underlying price levels which were much higher than currently. During this period management encouraged the business to grow as per overall BMO CM growth aspirations. In the last half of the year, as prices declined, customer activity slowed. However the trading activity in the business did not decrease and, in fact, grew as proprietary trading occurred.
- Proprietary trading has been defined as one element of the business strategy as per the strategy document tabled with RRC in Q1 2006. However, it was always expected that management would ensure appropriate balance between producer-originated business and proprietary activity with trading companies and financial intermediaries. The risk parameters defined for the business did not include limits pertaining to trading activity or open interest. It should also be noted that the generated risk positions were within delegated limits or exceptions were sought when required. As market volatility fell and liquidity reduced, the portfolio was larger and therefore

more exposed than it would otherwise have been if the strategy had been followed more closely.

Risk Measurement

- The approved independent price verification (IPV) methodology used for valuation purposes relied on information from largely one broker to verify the portfolio value. Recently, NYMEX has purchased 20% of this firm and the principals have held senior positions at NYMEX in the past, both factors supporting their reputation and original selection. However, it is apparent now that the broker generated a significant portion of its revenues and therefore likely much of its trading volume, from our business. As a consequence it is possible that the data provided from the broker was biased by prices of our trades as opposed to those of other market participants. In fact, some of their numbers come from an anonymous trading platform in which BMO is a participant. When the multicontributor data, received in the early fall, was compared to the prices on our book, a large valuation discrepancy was revealed.
- The close out methodology calculated the cost using lagged sensitivities as opposed to unlagged sensitivities. Market Risk recommended in their January report and Deloitte confirmed in their report that the unlagged approach should be employed for accounting purposes. The materiality of the amount arising from the change is a direct function of the size of the book. In the past when the book was much smaller the impact of using lagged sensitivities would have been much less.
- It is important to note that the methodologies utilized for IPV and close out had been approved internally and audited by various parties including OSFI, the Federal Reserve and our internal and external auditors. These methodologies had been in place for numerous years.
- The VaR metric used to calculate the risk of the book does not reflect seasonality appropriately. Recent changes to incorporate the necessary factors that will address this model limitation could reduce the VaR. Market Risk quants anticipate that a reduction of up to 10% to 15% could result however the initial acceptance testing results have not shown any reduction. It is premature to draw any conclusion at this time.
- The business was operating at a reported VaR level on average of approximately 9mm in both Q4 06 and Q1 07 and the risk metric reached highs of 16mm against a limit of 8mm. The possible overstatement of 10% to 15% described may have increased the size of the limit excesses but the book was trading at or above its limits. Accordingly the decision to reduce the risk in the book was appropriate. The method by which the risk in the book was reduced – adding positions as opposed to liquidating – was the decision of Commodities management and supported by senior management.

Summary

- The combined impact of these three breakdowns is larger than the simple sum of the individual components. The deviation from strategy resulted in a larger and more complex book than the infrastructure and management was able to support effectively.

<u>P&L Loss Components</u>

<u>Trading performance</u>

- It would appear that some component of the trading that occurred in the summer of 2006 has caused much of the outstanding risk we are currently managing. Further scrutiny is occurring to determine the nature of this trading and whether it was consistent with the approved strategy of the business.
- During the quarter, the losses attributable to the energy business were a result of a) time decay (theta) in the options book b) declining volatility in the natural gas market and c) declining customer flow.
- Premiums are paid/received to buy/sell options and over the life of the option the value of the premium is recognized on a mark to market basis. This premium is represented as theta or time decay. The book has grown over the last 18 months and a substantial portion of that growth has occurred over the last eight months (over 50% increase in net open contracts). This has resulted in a large theta exposure.
- The time decay was in the range of $1-1.5MM per day over the last quarter. The business was unable to offset this cost of theta due to lower client flow and lower volatility. (A quick calculation of approximately USD1mm/day for the quarter is USD90mm of theta expense and explains a large portion of our trading losses.)
- The valuation of the options is also impacted by volatility changes (decreased volatility decreases the value of the option).
- The portfolio is long volatility. This overall strategy is considered by senior management to be appropriate for high volatility businesses. Unfortunately, over the past two months market volatility of NG has dropped from approximately 70% to approximately 40% which has caused trading losses.
- Over this period the price of NG has also decreased somewhat but has been largely range bound. As a result, the market has become very quiet with little client flow.
- It should be understood that the desk operated within annual approved market risk limits and sought approvals when risk limit exceptions were required. Moving forward additional limits will be required for time decay and total portfolio size.
- From the business's perspective part of the scope in trading activity during calendar 07 is attributed to an outdated VaR methodology which wasn't reflecting appropriate seasonality in our risk measures causing excessively high VaR numbers. The desk acted in the market to reduce the VaR on management's direction. This gap in VaR has been identified by Deloitte's and appropriate action is currently being taken to correct.
- The Market Risk quants based on theoretical analysis anticipate that the VaR would be reduced by 10% to 15% by the inclusion of new parameters to address the seasonality more appropriately. However the initial user acceptance test for the date of March 26, 2007 indicates a higher VaR of 10% to 15% with the new parameters. While this is certainly not enough information to draw any serious conclusions, it would be premature to conclude that VaR is excessively overstated. We are currently inconclusive as to the impact of these new parameters on VaR.

Independent Price Verification (IPV)

- Commodity derivative trading portfolios are marked-to-model daily using trader inputs. The IPV is the process by which the valuations derived from trader inputs are verified for accuracy at month-end.
- IPV adjustments for the natural gas options portfolio show a large difference as a function of the source of market data: broker data or data from Totem, a multi-contributor provider.
- The Bank contracted with Totem early last fall and Totem data were first used at October month-end, when the IPV adjustment was calculated as the average of the broker and Totem adjustments. Market Risk, however, committed to the line of business to do more analysis of the data sources. Given the various issues arising in the commodities business it was jointly decided to hire an outside industry expert to provide perspective on all aspects of our commodities business. Deloitte was engaged by BMO CM to specifically assess industry practice with respect to the use of multi contributor and broker data for valuation adjustments along with a variety of other aspects of the commodities business.
- Using the observations and general recommendations of Deloittes, BMO has developed a new approach to IPV which is driving the new valuations noted earlier.

Close Outs

- Close out adjustments are used to adjust the valuation of net open positions within the portfolio to the appropriate side of the bid ask spread. (The IPV process prices to mid point.)
- The methodology used in the past calculated the close out cost using ‘lagged’ sensitivities – a risk concept as opposed to an accounting concept. The Deloitte report suggested that industry practice was that unlagged sensitivities should be used for the valuation calculation. (Sensitivities are an estimate of the valuation change if the underlying price or implied volatility change by 1 unit.)
- This change in approach results in an increase in the close out costs of $20 to $30mm.
- If the positions are adjusted by contract and netting is not permitted the cost to close would increase to $200mm. This is viewed as an unreasonable approach, however it will be reviewed with external experts to ensure our recommended methodology is acceptable practice. It is noted that none of the other trading businesses is using this latter extreme close out approach, which generates the 200mm estimate. Should we move towards this approach the estimate will likely increase materially and likely question the utility of trading in general for BMO.

Risk Management

- Market Risk sought multi contributor data beginning in November of 2005. Concern by the business on sharing their prices with a third party created significant delays in contracting the multi contributor. In hindsight, the delays in obtaining multi contributor data should have been escalated more aggressively. However by August of 2006 a contract was signed and initial data was sent to Totem. The discrepancy between the broker quotes and Totem was escalated and an adjustment to the year end valuation was made.

- Continued analysis was done on the credibility of the Totem data in response to business concerns, culminating in a draft report outlining the issues which was released by Market Risk in January 2007. The report addressed both the IPV adjustment and close out cost methodology.
- Market Risk management identified the growth in the size of the book in August 2006 and spoke to CM Management about reducing the size and VaR of the book. Given the drive for revenue, CM management was not prepared to stop the growth in the book at that time, although a hard limit of 8mm in VaR was confirmed. CM Management was supportive of the business strategy given its reliance on existing valuation parameters and its belief the business was generating acceptable returns relative to associated risk.
- A rigorous process to review valuation methodologies on a regular basis to ensure their continued appropriateness will be implemented.

Going Forward

- The business continues to focus on reducing the current risk levels in the book. With liquidity levels as they are, it is management's view that a very cautious approach is required. Certain hedge funds that are active in the market have been taking the opposite side of our attempts to reduce exposures.
- These parties are well capitalized and no doubt sensitive to our positions. It is management's view that volatility levels are unlikely to decline materially from here. More aggressive attempts to sell would not be in the best interest of the corporation. It is anticipated that further losses will occur as we liquidate although managed without further IPV writedowns.

Disclosure Considerations

Internal

- Issue has been raised at RMC, RRC and Audit Committee at March meetings. Updates will be required at May meetings.
- Board to be updated at April 25 meeting.
- Consideration to be given as to whether a Disclosure Committee meeting is required.

External

Immediate Disclosure

- Press release disclosure in advance of the quarter-end results release is required if the extent of the commodity losses could reasonably be expected to result in a significant change in the market price or value of BMO's securities or would reasonably be expected to have a significant influence on a reasonable investor's decisions.(Material Information as defined in Securities legislation)
- A material fact or material change report would then be filed with Securities Regulators.

- The determination is a judgment issue, the final determination being made by the CFAO with input from the Bank's General Counsel and the Disclosure Committee.
- Once the due diligence on the quantum of the losses for the quarter is completed, a determination will need to be made if the quantum of the losses is Material Information.
- Prior to distribution of the Press Release, approach to quantification of losses will need to be reviewed by KPMG and regulators (OSFI, Fed) will need to be informed.

Disclosure in Quarterly Earnings Release

- Losses will be reflected in trading revenue. They cannot be shown as a separate one line item in the income statement.
- MD&A disclosure will be required of the impact of the losses on results for the quarter.
- In addition consideration should be given to whether disclosure is required of any remaining risks/uncertainties related to the business that could impact future periods.
- Analysts will likely focus on whether future losses could be expected and magnitude.

Next Steps

Complete due diligence on reserve adjustments

- Review proposed valuation methodology with Deloitte and Touche to confirm consistent with industry practice.
- Discuss with KPMG to obtain their concurrence.

Assess whether a material information press release needs to be released

Determine business strategy going forward including costs to run off/liquidate

Conduct review of all valuation practices for other trading and underwriting portfolios